



## **THE CHAMBER OF TAX CONSULTANTS**

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INDIRECT TAX STUDY CIRCLE MEETING ON 3<sup>RD</sup> AUGUST, 2018

### **“Issues under Accounts Closing & Reconciliation under GST”**

**CA Gaurav Save**

#### **Case Study 1**

*Time of Supply*

Facts:

Contrakt Ltd is undertakes construction contracts. The invoices are raised once each milestone is achieved As on 24<sup>th</sup> Feb 2018, 60 % of the works were completed and corresponding invoicing had been complete. The next milestone of 75% was due on 27<sup>th</sup> Apr 2018. Meanwhile cost was incurred further around 9% as on 31<sup>st</sup> March 2018. The Statutory Auditor has suggested that Contrakt Ltd should book income further upto 9% so that there shall be no variations for recognising the tax liabilities in the books.

Query 1:

- Contrakt Ltd seeks your advise whether to book such amount as income?
- Whether there shall be a GST liability if they decide to book the income in the books of accounts.

Query 2:

Alternatively A has received advance of Rs. 30 lacs corresponding to the 15% portion on 20<sup>th</sup> March 2018 on special approval basis. How shall the same be accounted for and what shall be the GST implications.

#### **Case Study 2**

*Time of Supply / Schedule I*

D Ltd has an HO at Mumbai and branch offices at Surat, Hubli and Indore. The HO and all the 3 branches are registered under GST. HO receives an adhoc advance for supply of goods and services of Rs. 25 lacs from XYZ Ltd on 25<sup>th</sup> March 2018. As on the 31<sup>st</sup> March 2018, D Ltd was unaware how the advance may be settled. On 5<sup>th</sup> May 2018 Surat and Hubli branch supply goods worth Rs. 7 lakhs and 8 lakhs respectively to XYZ Ltd. While the HO and Indore office provide services of 6 lakhs and 4 lakhs respectively on 7<sup>th</sup> June 2018. The books of accounts were finalised on 20<sup>th</sup> June 2018.

Query:

- a. D Ltd has query to account for the said transaction and wants to know when to discharge the GST?
- b. What if the advance was received on 14<sup>th</sup> November 2017?

### **Case Study 3**

#### *Time of Supply*

Specific Issues for timing difference and recognising the revenue as per AS 9 / Ind AS 18

- a. 04/2018 -CT(R) specifies a special Time of Supply where Development rights are given in lieu for constructed flats. The developer may account for the same as per percentage completion method
- b. In case of ex-factory / ex-showroom sale the risk and rewards are transferred immediately so there is no difference in timing but at door delivery sales the GST tax invoice has to be generated prior to supply. Sales revenue shall be recognised only when the risk and rewards are transferred
- c. Expert Solutions is an exporter of services. It forgot to apply for LUT for FY 2017-18 till Feb 2018. One of the primary condition for export of service is that money has to be received in convertible foreign exchange. Expert Solutions wants your advise whether they have to discharge GST for services exported. When should they classify a transaction as export of service in their books of accounts?

### **Case Study 4**

#### *Schedule I transactions*

M/s Excellent Consultants, a proprietary concern of Mr. E and M/s Excellent Advisory Services, a partnership firm in which Mr. E is the working partner having 60% share in profit share the same office premises in a corporate park. The rent alongwith GST is paid by Excellent Consultants while office expenses like salary to employees, stationery, maintenance is borne by Excellent Advisory Services.

Query;

- a. How can the transaction be accounted for, does it have any effect on reconciliation?
- b. Is there any necessity to do a cross charge or can discharge of GST liability suffice?

### **Case Study 5**

#### *Barter*

Fascinating Ltd runs a lifestyle television channel named Flavours of India. The food and lifestyle shows are attract high TRP under the urban youth population. Various

film actors come across its shows for promotion of their new launches. At the same time these actors in return promote the channel Flavours of India. Such transactions are barter in nature, which were not accounted for.

Query

- a. How to account for the valuation and discharge of GST liability
- b. How shall the reconciliation effect be disclosed

### **Case Study 6**

*Valuation and ITC*

Great Goods announces a seasons sale offer wherein on purchase of 2 shirts 1 shirt given for free. Their GST Advisor suggested them that declaring 1 shirt for free shall necessitate Great goods to reverse the corresponding ITC credit of 1 shirt. Instead they should bill for 3 shirts and provide discount to the extent of shirt to be given for free.

Query:

- a. Great Goods want to know how to account for such transaction since discount (trade discount) are not recorded.
- b. Will it make any difference that the publicity is made for buy 2 get 1 free while invoicing is done as discount

### **Case Study 7**

*Valuation, ITC*

Query:

- a. H & Co a wHolesale Dealer was not getting its sales been escalated. They therefore announced a discount in their forward chain that if the retailers achieve Rs. 5 crore turnover by Diwali, they shall get discount of 5 % and further if total turnover upto 28<sup>th</sup> Feb 2018 reaches Rs. 8.5 crores then additional discount of 2 % shall be provided. The CA consulting H & Co said that since the discount was offered post supply there shall not be reversal of ITC. H & Co wants to know whether there are any implications for GST liability if a commercial credit note is issued and how to reconcile the same with the books

### **Case Study 8**

*Input Tax Credit*

Query:

- a. The amount for purchases alongwith GST has been paid. The vendor has not filed his GSTR 1 and thus credit is not reflected in GSTR 2A. However such credit
- b.

was already claimed in the GSTR 3B filed. Does this transaction require any GST or accounting effect?

- i. What if the vendor has filed his GSTR – 1 but classified the same as B2C transaction and thus credit is not reflecting in the books
  - ii. Does the answer change if the vendor has filed his GSTR 3B but not GSTR 1
- c. As far as credits on items listed u/s 17(5) of the GST Acts are concerned, how should one account for the blocked credit. Whether the same must be added in the value of expense or under separate expense head.
  - d. ITC Ltd missed out certain invoices on which credit was to be claimed for the months of July, September and November, since the same were received late and their corresponding GSTR 3B was already filed. They are waiting for the Annual return to claim the same. They are in a dilemma as to whether they should account for the same on 31<sup>st</sup> March 2018 or no? If yes how to reconcile the difference.
  - e. A company supplies both exempt as well as non exempt goods. It buys machine for Rs. 1 lakhs on which corresponding ITC is Rs. 18000/-. The ratio of exempt to non exempt supplies is 1:2. It wants to reverse the credit amount of Rs. 6000/- being attributable to non exempt supplies. The company wants to know whether they should charge the reversed credit to the expenses or capitalise alongwith machinery. Will sec 16(3) of the GST Act have any impact if Rs. 6000/- is capitalised
  - f. Payment to vendor was outstanding for 7 months. The taxable person forgot to make reversal in GSTR. Does he still need to make a reversal in the books of accounts if they are not yet finalised. What if the reversal is made properly in GSTR 3, whether the reversed credit parked in a separate asset a/c or charged to profit n loss a/c

### **Case Study 9**

*Sundry*

Query:

- a. What is the effect on supplies made under warranty
- b. Costs / nominal portion of costs recovered from employees towards services provided to them
- c. Impact of Transitional Provisions /credits

### **Case Study 10**

*Input Tax Credit*

Facts:

M/s A Traders, a partnership firm registered under MVAT Act, had received a provisional ID for GST. 2 out of the 4 partners were to retire and hence they did not

complete their migration process of uploading the documents, assuming they shall do after the change in partnership deed. In the meanwhile the firm provided its provisional GSTIN to all its vendors. Due to disputes the partnership was amended in November and that provisional number was cancelled due to want of documents. M/s A Traders applied for a new registration and received the new number. By the time they shared their new GSTIN to their vendors, it was Jan end. Most the vendors didn't update their records.

Query;

1. A Traders want to know that how should they treat the ITC booked in accounts pertaining to old GSTIN?
2. Is there any way that they can transfer the credit of one registration to other ?
3. Can the vendors legally rectify their returns with the new GSTIN of A Traders for the period for which the new GSTIN was not available. If not then what to do about such credit?

### **Case Study 11**

#### *Identifying Turnover and Peculiar Issues in Composition*

Facts:

Mr. Baniya, a proprietor trader and registered under the erstwhile VAT regime has a turnover of Rs. 20 lacs for the period April to June 2017. His turnover in previous FY was Rs. 94 lacs. He is migrated to GST wef from July 01, 2017. Mr. Baniya opts for composition scheme having satisfied all the conditions of sec 10(1) r.w. Rule 5 and sec 10(2) of the GST Acts. On 21<sup>st</sup> Nov 2017 his total turnover touches Rs. 1,00,52,000/-. Having broken the conditions of eligibility he opts out of composition scheme. The final annual turnover is Rs. 1.58 crores for FY 2017-2018. Total VAT Liability was Rs. 270000/- while the GST liability was Rs. 536000/-

He is following presumptive taxation under the Income Tax Act u/s 44AD and thus has not maintained proper books of accounts.

Query 1:

- a. How can Mr. B reconcile the books for correct assessment of GST and Income Tax Act?
- b. He is eligible to claim credit of stock u/s 18(1)(c), but due to want of proper records he is unable to identify the stock with corresponding invoices. Is he required to give any effect to the stock or can he still claim the ITC
- c. He is also unable to understand what turnover is to be taken for purpose of 44AD under Income Tax Act, i.e. whether to include indirect taxes thereof.

Query 2:

- a. Which return shall he file for the period Oct to Dec 2017